HISCOX

Hiscox Ltd full year results

For the year ended 31 December 2018

"A good result in a challenging year for insurers"

	2018	2017
Gross premiums written	$3,778.3m	$3,286.0m
Net premiums earned	$2,573.6m	$2,416.2m
Profit before tax	$137.4m	$39.7m
Profit before tax excluding FX	$151.1m	$120.6m
Earnings per share	45.1¢	12.0¢
Total ordinary dividend per share for year	41.9¢	39.8¢
Net asset value per share	819.1¢	835.1¢
Group combined ratio	94.9%	99.9%
Group combined ratio excluding FX	94.4%	98.8%
Return on equity	5.6%	1.5%
Investment return	0.7%	2.0%
Foreign exchange losses	$(13.7)m	$(80.9)m
Reserve releases	$326.5m	$324.2m

Highlights

- Profit before tax tripled to $137.4 million (2017: $39.7 million), with a strong underwriting result of $148.0 million (2017: $43.0 million) in another busy year for claims.
- Gross premiums written grew by 15.0% with double-digit growth in all segments.
- The standout performer was Hiscox London Market, which returned to growth and profit after three years of disciplined cycle management.
- Hiscox Retail wrote over $2 billion of premium and served one million customers for the first time, and its profits cover the dividend for the third consecutive year.
- Hiscox Re & ILS was impacted by a second year of significant natural catastrophes and some large individual claims. Kiskadee Investment Managers' assets under management now at $1.5 billion.
- Ongoing investment in brand and infrastructure to capture long-term growth opportunity continues.

Bronek Masojada, Chief Executive of Hiscox Ltd, commented:

"We have generated strong growth and good profits in a busy year for claims. The tough action we took in our London Market business is paying off, and we are seeing some positive momentum in big-ticket lines, where rates, terms and conditions are improving. We are growing well in our chosen retail segments, and our small market shares mean the size of the opportunity in retail remains immense. We will continue to invest in our people, infrastructure and brand and maintain our focus on disciplined growth."

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Notes to editors

About The Hiscox Group

Hiscox is a global specialist insurer, headquartered in Bermuda and listed on the London Stock Exchange (LSE:HSX). Our ambition is to be a respected specialist insurer with a diverse portfolio by product and geography. We believe that building balance between catastrophe-exposed business and less volatile local specialty business gives us opportunities for profitable growth throughout the insurance cycle. It's a long-standing strategy which in 2018 saw the business deliver a profit before tax of $137.4 million in a challenging year for insurers.

The Hiscox Group employs over 3,300 people in 14 countries, and has customers worldwide. Through the retail businesses in the UK, Europe, Asia and the US, we offer a range of specialist insurance for professionals and business customers as well as homeowners. Internationally traded, bigger ticket business and reinsurance is underwritten through Hiscox London Market and Hiscox Re & ILS.

Our values define our business, with a focus on people, quality, courage and excellence in execution. We pride ourselves on being true to our word and our award-winning claims service is testament to that. For more information, visit www.hiscoxgroup.com.

Chairman's statement

Hiscox delivered a good profit before tax of $137.4 million (2017: $39.7 million) despite another busy year for claims. After a relatively benign start, we saw a number of natural catastrophes and significant market losses in the second half which, combined with turbulent financial markets, have impacted our result. Our long-held strategy of balancing the volatility of big-ticket lines with more steady retail earnings continues to serve us well, and the strength of our products, people and brand mean we are able to seize opportunities.

Our retail businesses had a good year, delivering double-digit growth and solid profits as we reached the milestone of one million retail customers. Our business in the USA continues to develop strongly, however as we continue to exercise discipline in the under-performing directors and officers' account, growth will be tempered.

In big-ticket lines, market conditions have been challenging but our London Market business has reaped the rewards of the tough action we have taken over the last three years to reduce or exit from unprofitable lines, and returned to excellent growth and profitability.

Our reinsurance and ILS operations experienced a very active year for claims, with exposure to hurricanes and wildfires in the US, typhoons in Japan, hailstorms in Australia and large claims in cyber and marine hull.

In our investments, we were impacted by both difficult equity markets and the value of our bond portfolio which naturally reduced as interest rates rose in the US. We will benefit from those same rising interest rates in 2019 and recover 2018 losses as we hold the bonds to maturity.

Financial performance

The result for the year ending 31 December 2018 was a profit before tax excluding foreign exchange of $151.1 million (2017: $120.6 million). Gross premiums written increased by 15.0% to $3,778.3 million (2017: $3,286.0 million). The combined ratio was 94.9% (2017: 99.9%). Earnings per share increased to 45.1¢ (2017: 12.0¢) and the net asset value per share decreased to 819.1¢ (2017: 835.1¢). Post-tax return on equity was 5.6% (2017: 1.5%). Our investment return of $42.5 million (2017: $112.5 million), before derivatives and fees, equates to a return of 0.7% (2017: 2.0%) on total assets under management.

I am pleased to announce a final dividend of 28.6¢, which is an increase of 5.2%. The record date for the dividend will be 10 May 2019 and the payment date will be 12 June 2019.

The Board has approved a scrip alternative subject to the terms and conditions of Hiscox Ltd's 2016 Scrip Dividend Scheme. The last date for receipt of scrip elections will be 20 May 2019 and the reference price will be announced on 30 May 2019.

Our market

We are ruled by the market, particularly in big-ticket and reinsurance lines, and adjust our appetite according to the opportunities it provides. Rates did not respond as much as we feel they should have following the losses arising from hurricanes Harvey, Irma and Maria in 2017, but where they did we were able to take advantage. A second successive year of historic market losses seems to have done little to spur a widespread market turn, but once again we have been ready, taking opportunities where they have been available.

In London, the Lloyd's Decile 10 work is making good progress to redress the balance when it comes to capacity and market discipline. We have been very supportive of Lloyd's, which has put pressure on the market's underwriters to take action in unprofitable areas. I feel it strange that it takes a regulator to tell businesses that it is a bad thing to lose money, but the process has certainly squeezed out some of the worst performing lines and that is a very good thing indeed.

Although the reinsurance market did not harden as many had hoped, the retrocession market – reinsurance of reinsurers – did become more sensibly priced. This has in the past led to sufficient increases all the way through to insurance pricing. It remains to be seen whether that particular tail still wags the dog.

Progress can feel painstaking, but we are gaining ground on improved rates, and on the technical, but important, area of terms and conditions. As our London Market result shows, we are happy to navigate these waters and our underwriters are up to the task.

People and culture

People and culture make a difference; indeed, culture and values are as important as strategy and distribution, so when it comes to values we expect our top executives and the Board to show leadership. As Hiscox continues to grow, the continuity of our culture is key. It has been pleasing this year to see strong succession from within and, in retail, the top team sharing their expertise with different parts of our business to help drive Hiscox to the next level.

I am regularly told by those that know us that Hiscox has a distinctive culture underpinned by strong values. Being the highest ranking financial services firm in Glassdoor's 2019 best places to work in the UK, and receiving very positive customer feedback, validates that our values are being lived. We do not take this for granted, and around every five years, as new people join and the business evolves, we undertake an exercise to refresh them. I am pleased that we are embarking upon another such exercise, led by our Chief Executive Bronek. It doesn't mean that we feel they are wrong – language becomes dated and core principles need to be expressed so they resonate with new generations of employees. Our values inform all our day-to-day decisions and that makes them critical to maintaining our reputation for integrity and decent and fair behaviour in everything we do.

Outlook

The diversity of our products and distribution continues to give us options. Our retail operations have again balanced the volatility of the big-ticket lines, validating our long-held strategy. We have talked before about the moderating percentage growth rate in Hiscox USA, but we find the size of the US opportunity exciting.

In the London Market, it has been a war of attrition but rates and terms are improving in many lines and the refinements we have already made to the portfolio mean we are well positioned as renewed discipline courses through the market. Similarly in reinsurance, we believe opportunities will present themselves in loss-affected accounts. We also expect to benefit from improved investment conditions.

2018 was a year of change and achievement in our operations, and more change is planned in 2019. Although we have completed our structural readiness for Brexit, our investment in infrastructure projects that will boost our abilities to serve customers and create efficiencies continues. This is all good, necessary work, but as we have mentioned previously it will have an impact on growth and expenses in the short term.

I would like to finish by thanking everyone at Hiscox for their efforts this year, particularly as we entered the FTSE100. Their hard work in serving our customers, paying claims, establishing new partnerships, building new systems and supporting our growth has all contributed to this result.

Robert Childs
25 February 2019

Chief Executive's report

2018 was another eventful year for insurers, with catastrophe activity at historic levels, financial market turmoil and geopolitical uncertainty. In this challenging environment, Hiscox grew gross premiums written by 15.0% to $3,778.3 million and more than tripled profits to $137.4 million (2017: $39.7 million). Our post-tax return on equity was 5.6%, an improvement on last year's 1.5%, and a fair result in the circumstances.

The standout performer in 2018 was Hiscox London Market which returned to growth and profit after three years of tough action; withdrawing from poor-performing lines and navigating challenging markets. Having done much of the hard work, the team was in a good position to navigate the Lloyd's Decile 10 profit remediation programme.

Hiscox Retail wrote over $2 billion of premium, served one million customers and has become a strong profit generator for the Group, with its profits covering the dividend for the third consecutive year. As a result of portfolio optimisation, we expect growth in Hiscox Retail to be in the high single digits for the next 12 months.

Hiscox Re & ILS has been hit by a second year of catastrophe claims. Our aggregate protection products, our risk excess covers and some specialty areas - all areas of focus since 2012 - meant that the higher frequency of mid-sized catastrophes and individual large losses in 2018 hit us harder than 2017's fewer but larger catastrophes. Our products worked, our clients are happy, and while it cost us more, that is the nature of our business.

Our ambition for 2019 is to continue to grow premiums, albeit at a slightly slower pace than 2018. We are hopeful that positive pricing momentum and ongoing portfolio optimisation will lead to improved underwriting profits, with higher interest rates driving better investment returns.

I review each part of our business in turn below.

Hiscox Retail
Generating profits and creating value; investment in brand and infrastructure continues

Hiscox Retail comprises Hiscox UK & Europe and Hiscox International. In this division, our specialist knowledge and retail products differentiate us and our ongoing investment in brand helps us build a strong market position. Hiscox Retail is the single biggest segment in the Group and this year generated 55% of the Group's gross premiums written at $2,087.1 million (2017: $1,835.4 million), up 13.7% year-on-year. Our ambition remains to grow our retail business between 5% and 15% per annum in the medium term. We reached the milestone of one million retail customers and $2 billion of premiums during the year, and the fact that our market shares remain small in most of our markets indicates the size of the opportunity still ahead of us. Building a retail business takes time, but persistence pays off. We continue to invest in building our brand across all markets and in multi-year IT infrastructure programmes that will support our growth plans.

Hiscox Retail delivered profits of $136.0 million (2017: $141.6 million), and the combined ratio of 93.6% (2017: 94.6%) is within our 90%-95% target range. The improvement in combined ratio on the larger premium base was insufficient to offset lower investment returns, leading to lower profits from the division. The rating environment across retail also remained broadly flat throughout 2018.

We made some important leadership changes across retail in 2018. As previously announced, Ben Walter moved from CEO of Hiscox USA to the newly created role of CEO Hiscox Global Retail. Ben is helping to sharpen the focus of our retail operations, and address the common challenges that our retail businesses face when it comes to driving product innovation, creating scale and digitising for the modern age. In addition, Steve Langan moved from CEO of Hiscox UK & Ireland to CEO of Hiscox USA while remaining Chief Marketing Officer for the Group. Steve has the business-building experience and branding firepower that our US operations require for their next phase of growth. Bob Thaker, who is currently serving as CEO of DirectAsia, will succeed Steve as Hiscox UK CEO in the first quarter of 2019, and we have begun the search for his replacement. Each of these appointments will help to drive Hiscox Retail forward in the medium to long term, but as each new CEO gets settled in their new roles, I am expecting growth to be more conservative in the short term.

Hiscox UK & Europe

This division provides personal lines cover – from high-value household, fine art and collectibles to luxury motor – and commercial insurance for small- and medium-sized businesses, typically operating in white collar industries. These products are distributed via brokers, through a growing network of partnerships and, for some simple risks in the UK, France and Germany, direct to customers. Our schemes business offers insurance solutions to customers with similar risk profiles, for example sports clubs, wedding cars and niche industry associations.

Hiscox UK & Ireland

Hiscox UK & Ireland increased gross premiums written by 11.5% to $799.5 million (2017: $717.1 million), or 7.8% in constant currency, with every region contributing and good growth in most of our product areas.

Cyber remains a bright spot and has grown ahead of budget. The introduction of the EU's General Data Protection Regulation, and no doubt the constant deluge of data breaches that we all read about in the media, are rapidly increasing demand for specialist cover.

Our direct offering is growing well and UK direct reached £100 million of premium this year, helped by a sustained marketing commitment. Building this business has taken time, but the brand we have established and expertise we have embedded is valuable not only to the UK, but also to our other retail operations. It is a model we seek to replicate in our other direct businesses.

The home insurance market remains competitive, with escape of water claims still prevalent and now some subsidence claims after a dry summer. As a result, premiums have increased, and while we try and mitigate the impact of price increases on our customers, we must be disciplined if we are to provide the service that they expect.

In the broker channel, IT change dominated the agenda this year and growth was lower than in previous years. Adapting to our new system with new ways of working has caused some indigestion and had a knock-on effect to our usual standards of service to our brokers and customers. We appreciate their support as we work to get things right. In 2019, our existing broker high net worth business will begin to transition to the new system. We expect growth in the broker channel will continue to be affected as these changes take place, until we reach full operational capability by mid-2019.

Hiscox Europe

Hiscox Europe had another great year. Gross premiums written grew by 17.2% to $322.3 million (2017: $275.0 million), or 11.4% in constant currency, helped by both strong new business and retention. Cyber, classic car, management liability and technology products continue to perform well in Europe and we continue to invest in them.

Germany is now our largest business in terms of premium, with our technology, management liability, motor and cyber products proving most popular. The Frankfurt branch we opened in 2017 is performing well, and having a physical presence in Germany's financial capital is yielding good results. We will extend our regional footprint further during 2019, with new offices in Stuttgart and Berlin.

In Spain our management liability, professional indemnity and cyber products are key growth drivers. We have also experienced strong new business through existing partnerships, by bringing new products to existing distribution channels.

Our Benelux business has seen good growth in motor, fine art and high-value household where we have benefited from competitors retreating. We launched our cyber and professional indemnity products in Belgium during the year, with promising early signs.

In France, growth has been more muted. After a challenging period in household, we have taken action, implementing a new underwriting and pricing strategy. Cyber and partnerships with financial institutions have performed well, and in motor the partnership we established with Aon has enabled us to materially grow our classic car book.

In most markets, cyber has exceeded our expectations. Our investment in talent and marketing, and the consistency we have introduced in our CyberClear brand is paying off. We have developed a leadership position in Germany and Holland, and Spain has had a very promising response to the cyber product it launched at the start of the year. There is more to do in France, but in time we hope to replicate the success we have had elsewhere.

The shared service centre in Lisbon has grown over the 12 years since it was established, from five people in 2006 to a 400-strong team in 2018. It has created valuable efficiencies for Europe and other parts of our business including Hiscox UK, Hiscox MGA and Group IT now benefit from its support.

The roll-out of our 'My Hiscox' broker extranet sites across Europe is progressing to plan, and provides brokers and partners with additional products and convenient self-service features. The robotic process automation (RPA) that I mentioned last year, which allows us to automate back-end processing and further improve our service levels to brokers and partners, has been rolled out across policy administration, claims and finance and resulted in the automation of 70,000 transactions in 2018. Our focus on IT infrastructure in Europe will continue in 2019, when we will start work to prepare the business for a new core policy, claims, billing and collections system. This will be a similar multi-year undertaking to the work we have done within our UK and US businesses.

Due to the structural changes we have made to our business in readiness for Brexit, Ireland will be reported as part of Hiscox Europe from 2019. One of the upsides of the changes we have implemented is that Hiscox Europe will benefit from greater clarity and attention, with its own Board oversight.

Hiscox International

Hiscox International comprises Hiscox USA, Hiscox Special Risks and Hiscox Asia. It grew by 14.5% to $965.3 million (2017: $843.3 million).

Hiscox USA

Hiscox USA underwrites small- to mid-market commercial risks through brokers, other insurers and directly to businesses online and over the telephone. The business continues to achieve strong growth, with gross premiums written increasing by 15.4% to $809.6 million (2017: $701.4 million).

Our online direct and partnerships division, where the business we write is predominantly for small businesses with one to five employees, continues to be the biggest driver of growth for Hiscox USA. It grew by 43% to reach $206 million. Growing partnership distribution and our commitment to building a direct-to-customer brand are impactful here, and the business will be the first beneficiary of the new policy administration system currently being implemented.

In the broker channel, growth was driven by professional risks and general liability and we benefited from good retention, though new business has been hard fought – especially in the architect and engineers market, where competition is heating up at the lower end of the market. We are maintaining our underwriting and pricing integrity in mid-market cyber, where a maturing US cyber market has led to falling prices and widening cover, and we continue to carefully manage our exposure. Like others in the market, we experienced an increased severity of claims and rate inadequacy for directors and officers' (D&O) for private companies. We have responded with discipline and expect our D&O book to shrink in 2019.

Our new US MGA has now commenced trading, with an initial focus on commercial property. The MGA underwrites on behalf of Hiscox London Market and other Lloyd's syndicates, allowing us to increase our line size and be a more material participant in the market. There is the potential to broaden the MGA's scope over time.

The operational resilience of the business has been boosted by new offices in Las Vegas and Phoenix, which improve our capabilities to serve West Coast customers.

Hiscox Special Risks

Hiscox Special Risks underwrites kidnap and ransom, security risks, personal accident, classic car, jewellery and fine art. Hiscox Special Risks has teams in London, Guernsey, Cologne, Munich, Paris, New York, Los Angeles and Miami.

The business had another good year and delivered gross premiums written of $136.2 million (2017: $127.2 million), an increase of 7.0%. Around half of the business written here are multi-year policies, which impacts on the top line and causes year-to-year volatility in revenues.

We have maintained our market-leading position in kidnap and ransom despite increased competition and ongoing challenges in the rating environment. The Special Risks Underwriting Centre is helping to boost retention and allows underwriters more time to work on complex risks and new business.

Our Security Incident Response product, which responds to a range of security issues such as criminal threats, workplace violence, corporate espionage, mysterious disappearance and cyber extortion, continues to be an important opportunity. It has created a market where none existed previously, and I regularly describe it as the product that every CEO needs. Who do you turn to for help when you face one of these remote, but sadly not unthinkable, events? The product is now available in the UK, USA, Japan, Spain and the Netherlands and we have deployed additional resources to support further growth. The product was recognised with the Innovation Award at Business Insurance magazine's Innovation Awards 2018.

Hiscox Asia

Our brand in Asia, DirectAsia, is a direct-to-consumer business in Singapore and Thailand that sells predominantly motor insurance. Hiscox acquired it in 2014.

The business grew its controlled premiums by 32.7% to reach $19.5 million (2017: $14.7 million). This excludes premiums controlled by DirectAsia Thailand, which is currently written via an agency relationship into Hiscox Insurance Company (Bermuda) Limited and reported within Hiscox Re & ILS. From 2019 onwards, premiums controlled by DirectAsia Thailand will be reported within Hiscox Retail, in line with the way the Group reports agency income.

Both Singapore and Thailand remain competitive markets, but focused marketing execution along with product and pricing enhancements in car, motorcycle and travel are helping us to attract and retain more customers. We continue to invest in the business as we strive to reach scale.

We have also expanded our distribution capabilities through commercial partnerships with complementary brands including SingTel, Prudential, DBS, and VICOM in Singapore and KTC in Thailand this year. These partnerships broaden our reach, endorse our brand and help us to grow.

Hiscox London Market
Disciplined cycle management driving excellent results

Hiscox London Market uses the global licences, distribution network and credit rating available through Lloyd's to insure clients throughout the world.

The business has delivered a great result for 2018, increasing gross premiums written by 17.1% to $877.7 million (2017: $749.8 million), or 16.3% in constant currency, with particularly strong growth in property, general liability and cyber. It generated a profit of $78.2 million (2017: loss of $46.7 million) and the combined ratio improved to 89.3% (2017: 111.6%).

The discipline our London Market business has shown over the last three years has paid dividends. Since the end of 2016, the team has walked away from $400 million of challenged business and by the end of 2018 they had succeeded in replacing it with stronger performing business.

The tough action taken in previous years continued in the first part of 2018, when we stopped writing aviation hull and liability, and reshaped our D&O exposure. This work meant we were well positioned for the Lloyd's Decile 10 directive, a crackdown on unprofitable lines by mandating that each syndicate submit plans to address the worst-performing 10% of their business. It made for an interesting business planning process but we had far fewer adjustments to make than some of our peers. We view the action taken by Lloyd's as positive; we all benefit from the Lloyd's brand, rating, central fund and licences, and it is their right to make sure members are competitive. Lloyd's is considered the problem-solver of insurance – its reputation for having the expertise and experience to place complex or unusual risks has been earned through decades of hard work – and we must play our part in helping to retain that.

Our London Market team worked hard to push through rate rises in 2018 and overall rates went up 7%. Notable rate rises for the year were in household and general liability, while terrorism and cyber remain competitive. The 1 January 2019 renewals are most significant for our property and specialty insurance lines, which grew between 5% and 10% year-on-year, and in hull and cargo we saw double-digit rate increases at 1 January. Elsewhere rates were flat or up slightly.

As a result of the hurricanes, our property division had another active year for claims but delivered a profit overall. US flood remains a significant opportunity and our FloodPlus products use proprietary technology and advanced analytics to provide better cover at a fairer price for customers, backed by capacity from the flood consortium we lead. FloodPlus performed well in another major US flood event, and during the year we broadened our offering with a FloodPlus Commercial product which has been well received.

Our casualty team focuses on larger company cyber, D&O and general liability. In cyber, although overcapacity is impacting pricing, we remain ambitious and continue to invest in our cyber training programme for brokers which is helping to boost understanding of what remains a complex risk. We have some exposure to the Marriott data loss whose scale and cost reminds us that this is not a risk-free area of activity. The D&O market remains especially challenging, and we significantly refocused our ambitions during the year. Our general liability book continues to grow well and trends look positive. We will expand our capacity in 2019 using consortia with other Lloyd's syndicates.

We have maintained our market share in core lines including terrorism, where our market-leading position continues to stand us in good stead despite the competitive market.

In product recall we remain opportunistic. We responded to the Canadian Cannabis Act - which allows recreational use of marijuana in Canada and has meant that marijuana growers now require product recall cover - with a new product in less than a month which is just the sort of fleetness of foot and innovation we want to be known for.

The discipline and careful underwriting of our marine and energy team has driven an outstanding performance in these lines, helped too by a low loss experience. In cargo, we are refocusing the portfolio to reduce our overall exposure and lead on more of the business we write.

Our alternative risk team focuses on portfolio business, where we match our capacity and experience with the expertise of underwriters in niche lines that complement our core appetite. It has been a challenging year, with some exposure to the California wildfires albeit within our expected loss experience. The team received recognition for their work at the Reactions London Market Awards 2018, where they were awarded Insurance Team of the Year.

We are making progress with Lloyd's Placing Platform Limited (PPL), the market's move to digital trading. Hiscox bound 45% of all syndicate risks through PPL, exceeding the target of 30% that was mandated by Lloyd's. This is good progress, but there is more to do. In 2019 we will support market moves to make the use of PPL for submissions mandatory, as this is where we will begin to gain the greatest efficiencies.

As previously announced, our 2019 business plan for Lloyd's allows us to underwrite a maximum premium in the year ahead of £1.5 billion for Syndicate 33 (2018: £1.6 billion), a reduction year-on-year as market conditions in 2018 did not tally with our expectations. This gives us sufficient headroom in which to execute our 2019 plans, with some allowance for the unexpected.

Our London Market business is a top quartile performer in Lloyd's and maintaining that position requires active cycle management. In 2019 we will retain our agility, with a particular focus on areas of opportunity within our investment lines.

Hiscox MGA
Hiscox MGA underwrites and distributes products where customers' requirements for capacity exceed Hiscox's own risk appetite, or where the team's distribution focus - both digital and physical - allows us to access business in local markets around the world. It operates out of London, Paris and Miami.

We stopped writing Latin American property facultative reinsurance in the first half of the year, having not seen sufficient rating correction after the loss events of 2017. In space, launch delays have had some short-term top-line impact due to attaching premium moving over to 2019, however we are benefiting from our technical underwriting approach in this line of business and are recognised as a market leader.

Hiscox Re & ILS
Good ILS performance, reinsurance market remains tough

Hiscox Re & ILS comprises the Group's reinsurance teams who are based in London and Bermuda, and ILS activity primarily conducted through our flagship Kiskadee funds. The team underwrites on behalf of Hiscox and third-party capital partners, whether they are insurance companies, other syndicates or capital market investors.

Gross premiums written grew 15.9% to $812.0 million (2017: $700.8 million), or 15.0% in constant currency. Property catastrophe reinsurance and specialty reinsurance were the key drivers of growth. A number of natural catastrophes and large claims impacted profits which resulted in a loss of $23.2 million (2017: profit of $25.5 million) and a combined ratio of 116.9% (2017: 101.3%). As explained earlier, the product mix sold to customers responded more to the run of mid-sized catastrophes and large individual losses that occurred in 2018 as compared to the fewer larger catastrophes in 2017. That is the nature of our business - fortuity influences our year-to-year performance, but good underwriting shines through over time.

There was an initial surge of prices in the first quarter following the 2017 hurricane losses, and we were able to write a disproportionate amount of business at that time, but as rate increases tapered off during the course of the year, our growth became more subdued. Overall, we achieved rate increases of 5% for the year.

We continued to develop our specialty lines where we see growing opportunity, launching a first-of-its-kind industry loss warranty product in cyber, and in flood, where our FloodXtra product differentiates us.

During the 1 January 2019 renewal period, we saw overall rate improvements of around 2% across all lines, driven by increases in retro, risk excess, casualty and specialty. As we look towards the Japanese renewals at 1 April and US renewals at 1 June and 1 July, both of which will be loss-affected, we anticipate further pricing correction.

We have seen sustained demand for our ILS offering. Our funds have performed in line with expectations, with the losses of the second half consistent with modelled outcomes. Assets under management now exceed $1.5 billion after last year's losses.

We continue to innovate in ILS and have launched a new fund which allows investors to access insurance lines for the first time. The Kiskadee Latitude fund is supported by a top-tier investor who will access a more diverse insurance and reinsurance portfolio with less focus on pure property catastrophe risk. The fund began underwriting on 1 January 2019, supported by over $100 million.

Claims

We experienced a relatively benign first six months of the year for claims; February's Beast from the East was well within our expected range for a UK weather event, and elsewhere our claims experience was unremarkable. As is the nature of insurance though, anything can happen and it did in the second half of the year, when we experienced a more active environment for both natural catastrophes and large claims.

Hiscox reserved $165 million for Hurricanes Florence and Michael in the USA, and Typhoons Jebi and Trami in the Far East, together with the impact of historic wildfires in California.

In addition, we had some exposure to a number of notable individual claims in cyber, media and marine (including a large marine loss of $13 million). In D&O we experienced a higher severity of claims both in the USA and London Market. The claims trends that I have talked about in Hiscox UK & Ireland – escape of water and subsidence – have also had some effect.

We exercise prudence when it comes to claims reserving, and this approach is evident in reserve releases of $326 million (2017: $324 million) from prior years. This includes favourable experience on the $225 million reserves established for Hurricanes Harvey, Irma and Maria at the end of 2017.

We also announced that the leadership of our claims function is evolving. Jeremy Pinchin, who has held multiple leadership positions during his 13 years at Hiscox, but served throughout as our Group Claims Director, will retire in 2019. When Jeremy joined us in 2005, he was our first Group Claims Director. That year, we paid total claims of around £450 million and had a claims team of less than 50 people. Jeremy has driven the ongoing professionalism of our claim's operations, ensuring its capabilities have scaled in line with our growth, and it is under his leadership that we now have an award-winning claims function, a 250-strong team, and in 2018 paid out £1.2 billion in claims. Paying claims is what we are here for and Jeremy has enabled Hiscox to go from strength-to-strength in this regard. He also made a huge contribution to our industry, particularly after 9/11 when he had the unique role of Special Counsel for Lloyd's and coordinated the market's management of its exposure to the losses arising from September 11.

During his time at Hiscox, Jeremy also served as the first Chief Executive of Hiscox Re; drove the creation of our ILS capability, including naming our funds Kiskadee, a noisy Bermudian bird; served as Chief Executive of Hiscox Bermuda, and as Hiscox Group Company Secretary and General Counsel. I am thankful for his huge and varied contribution to our business during his time at Hiscox. I am pleased that we will continue to benefit from his wisdom as a Non Executive Chairman of Hiscox Special Risks, and as Chairman of the Hiscox Pension Fund.

He is succeeded as Group Claims Director by Grace Hanson. She will be responsible for the strategic direction of Hiscox's claims activities across the Group, working with the standard-bearers for Hiscox's customer promise. We will benefit from Grace's experience, which includes big-ticket property and casualty claims while at Allied World, and volume claims while at Homesite. This combination of knowledge and experience will shape our claims response to the digital era.

Marketing

Our marketing is focused on building a differentiated brand in all our markets to drive value over the short and long term. In 2018 we spent $69.7 million on acquisition and brand-building activity (2017: $69.1 million) with award-winning campaigns such as CyberLive in the UK driving double-digit premium growth in our small business offering. The ***I'mpossible*** campaign in the USA continued to run across digital, print, radio and in sponsorship, while in the UK the ***Hiscox Ever Onwards*** campaign continued its successful combination of outdoor and radio. Cyber-focused campaigns drove increased awareness of Hiscox across both our business and home insurance customers. We saw great momentum in DirectAsia with new marketing campaigns and distribution partnerships driving new business performance.

Across the Group we activated key partnerships in our core interest areas of art, classic cars and technology, driving awareness and affinity of Hiscox.

Information technology and major projects

A robust modern infrastructure is essential, not only for the business we are today but also the business we want to be. The volume of work taking place around the Group to transform some of our underlying infrastructure is not insignificant, and we are making good progress. As previously stated, cumulatively these projects are increasing our expense ratio by 1%-1.5% in the short term.

The staggered approach we have taken to replacing our core underwriting systems across Hiscox Retail, starting with the UK, has been prudent. Embedding new systems and training our teams to use them takes time, and has had a short-term impact on service levels as our UK business adjusts, but in time we will reap the benefits of new infrastructure. In the USA, we remain on track for our direct and partnerships business to start transitioning to a new system towards the end of 2019. This will create efficiencies for the US business that are essential, given the size of the opportunity ahead of us. In Europe, we have reviewed our IT requirements and made some progress on improving our broker portals and relationship management systems. In time, our European operations will require the same core systems replacement as the UK and USA, so the associated business readiness activities will happen this year.

We completed the replacement of our HR systems across the Group in 2018 and our multi-year programme of finance change initiatives is progressing well. We have also taken positive steps regarding robotics and machine learning, for example, by automating some routine IT service desk tasks. In 2019 we will continue to move forward with our digitisation efforts, looking at broader use of technologies like application programming interfaces (APIs) and robotics that support our push towards portfolio underwriting in the UK, as well as personal lines and claims innovations that benefit our customers.

As we have said before, like others we have also had a plethora of external factors to respond to; Brexit (more on that below), General Data Protection Regulation (GDPR), New York Cybersecurity Regulation, IFRS 17 accounting standards, the Insurance Distribution Directive (IDD) and the updated Senior Managers Certification Regime (SMCR). So as the Chairman has said, 2018 was a year of change and achievement in our operations, with more planned in 2019.

Brexit

Our business is ready for Brexit, even if British politicians are not. We have always said that, for Hiscox, Brexit is structural not strategic. We have built a profitable business in mainland Europe and Ireland over the past 25 years, which serves over 200,000 customers and employs 420 staff. We have put in place the structures needed to continue to serve these customers, as well as those of our customers from elsewhere in the world who have assets or exposures in these territories.

We have created Hiscox SA, a new Luxembourg insurer to carry our retail risks, and will utilise Lloyd’s Brussels to insure European Economic Area risks which were previously placed with Lloyd’s of London. Adapting to Brexit cost Hiscox approximately $15 million in one-off costs, the majority of which were incurred during 2018, and an expected ongoing cost of $2.4 million per annum. It has also led to an increase in required capital of approximately €100 million, around half of which will moderate over time.

I am proud of the resolve of our teams around the world who have delivered our Brexit solution and I would like to thank them all for their hard work on the project. The Part VII legal process of transferring relevant policies and their associated liabilities from Hiscox Insurance Company to Hiscox SA, as we have just done, is complex, but provides certainty to our customers that we can legally pay all valid claims, even in a hard Brexit scenario. In 2019 we will work with Lloyd’s as they complete their Part VII transfer.

Investments

We manage our investment portfolio with two main objectives in mind: providing sufficient liquidity to pay claims and providing capital to support the underwriting business, while generating strong risk-adjusted returns. These objectives were certainly challenged this year.

Our prediction that the end of 2017 would be a turning point in financial markets proved to be correct, and 2018 was a difficult environment for investors. Interest rate rises, volatility spikes and equity price slumps contrasted sharply with the preceding year. Nevertheless, our cautious approach to risk and asset allocation enabled us to generate reasonable returns in turbulent markets.

In keeping with our long-held conservative approach to investing, we were content to accept the returns on offer in the safer corners of the bond markets while maintaining a modest allocation to equities and hedge funds. As a result of this strategy, our investments made $42.5 million (2017: $112.5 million), before derivatives and fees, a return of 0.7% (2017: 2.0%).

The conventional wisdom that a negative environment for bonds bodes well for equities did not hold true in 2018, with both asset classes underperforming in the majority of markets. In response, we reduced our bond exposure, reducing mark-to-market losses in the process; took refuge in cash, holding more US Dollars than usual; and maintained a low exposure to riskier assets.

While our investment returns were below our initial expectations, we outperformed our indices through a careful selection of active bond, equity and hedge fund managers.

2019 presents yet more uncertainty, with ongoing political instability in Europe and the potential for recession in the USA. While acknowledging the uncertainty, there are reasons to be optimistic; we have seen a material improvement in yields available and are now investing our US bond portfolio at rates in excess of 3%, something we have not been able to do for nearly a decade. We continue to hold a higher than normal allocation to cash and remain well-placed to invest as opportunities emerge.

Outlook

Our ambition for 2019 is to continue to grow premiums, albeit at a slightly slower pace than 2018. We expect that improving pricing as a result of Lloyd's Decile 10 and our ongoing portfolio optimisation will lead to more insurance profit, with higher interest rates driving better investment returns. We will continue to invest in our underlying infrastructure and our brand. All of this will help propel our business forward.

We are maturing into a larger and more prominent company, but we strive to retain our entrepreneurial spirit. We were promoted to the FTSE 100 at the end of 2018, the consequence of our past endeavours. It was a moment of quiet satisfaction, but more of trepidation. More people will have more opinions on what we should or shouldn't do. We are alive to the responsibilities, but will seek to live up to our ethos of *challenging convention*. We are fortunate that in many of our chosen areas, we are still small players with plenty of opportunity ahead of us. People, brand, products and strategic ambition differentiate us and we will continue to nurture them in the year ahead to the benefit of customers, staff and shareholders.

Bronek Masojada
25 February 2019

Additional performance measures (APMs)

APMs are commonly used measures to allow comparison across peer companies.

The Group uses, throughout its financial publications, alternative performance measures (APMs) in addition to the figures that are prepared in accordance with International Financial Reporting Standards (IFRS). The Group believes that these measures provide useful information to enhance the understanding of its financial performance. These APMs are: profit excluding foreign exchange gains/(losses), GWP growth in local currency, combined claims and expense ratios, return on equity, net asset value per share and reserve releases. These are common measures used across the industry, and allow the reader of the Annual Report to compare across peer companies. The APMs should be viewed as complementary to, rather than a substitute for, the figures prepared in accordance with IFRS.

— **Profit excluding foreign exchange gains/(losses)**

This represents the profit for the year after deducting foreign exchange gains or adding back foreign exchange losses in the relevant period. This enables the reader of these financial statements, and the Group, to measure the comparability of underlying profitability without the foreign exchange volatility. To obtain the value, the reader of these financial statements should remove the foreign exchange losses, as identified in the income statement, from the profit for the year.

— **GWP growth in local currency**

Gross written premium, as reported in the consolidated income statement, is measured in the underlying currency and compared to prior years on a constant currency rate basis. This eliminates the impact exchange fluctuations has on the result and therefore allows a direct comparison between the years. This is performed on a business unit basis and gives an accurate indication of premium growth compared to prior years.

— **Combined claims and expense ratios**

The combined claims and expense ratios are common measures enabling comparability across the insurance industry that measure the relevant underwriting profitability of the business by reference to its costs as a proportion of its net earned premium. The Group calculates the combined ratio as if it owned all of the business, including the 27.4% of Syndicate 33 that the Group does not own (Group controlled income). The Group does this to enable comparability from period to period as the business mix may change in a segment between insurance carriers, and this enables the Group to measure all of its underwriting businesses on an equal measure. The calculation is discussed further in note 4, operating segments. The combined ratio excluding foreign exchange gains is calculated as the sum of the claims ratio and the expense ratio.

— **Return on equity (ROE)**

As is common within the financial services industry, the Group uses ROE as one of its key performance metrics. While the measure enables the Company to compare itself against other peer companies in the immediate industry, it is also a key measure internally where it is used to compare the profitability of business segments, and underpins the performance-related pay and shared-based payment structures, as discussed within the remuneration policy report in the Annual Report and Accounts. The ROE is shown in note 6, along with an explanation of the calculation.

— **Net asset value (NAV) per share**

The Group uses NAV per share as one of its key performance metrics including using the movement of NAV per share in the calculation of the options vesting of awards granted under PSP from 2018 onwards, as discussed within the remuneration policy report in the Annual Report and Accounts. This is a widely used key measure for management and also for users of the financial statements to provide comparability across peers in the market. NAV per share is shown in note 5, along with an explanation of the calculation.

— **Reserve releases**

Reserve releases are a measure of favourable development on claims reserves that existed at the prior balance sheet date. It enables the users of the financial statements to compare and contrast the Group's performance relative to peer companies. The Group maintains a prudent approach to reserving, to help mitigate the uncertainty within the reserve estimates. The release is calculated as the movement in ultimate losses on prior accident years between the current and prior-year balance sheet date, as shown in note 11, as the result of better than expected outcomes of the estimates booked at the prior year close.

Condensed consolidated income statement
For the year ended 31 December 2018

	Note	2018 $000	2017 (Restated)[1] $000
Income			
Gross premiums written	4	**3,778,341**	3,286,021
Outward reinsurance premiums		**(1,196,855)**	(883,022)
Net premiums written		**2,581,486**	2,402,999
Gross premiums earned		**3,699,802**	3,295,965
Premiums ceded to reinsurers		**(1,126,163)**	(879,757)
Net premiums earned		**2,573,639**	2,416,208
Investment result	7	**38,101**	104,750
Other income	8	**46,785**	54,079
Total income		**2,658,525**	2,575,037
Expenses			
Claims and claim adjustment expenses		**(2,326,632)**	(2,489,598)
Reinsurance recoveries		**1,100,803**	1,178,682
Claims and claim adjustment expenses, net of reinsurance		**(1,225,829)**	(1,310,916)
Expenses for the acquisition of insurance contracts		**(881,974)**	(798,809)
Reinsurance commission income		**240,303**	210,879
Operational expenses	8	**(605,718)**	(528,973)
Net foreign exchange losses		**(13,688)**	(80,890)
Total expenses		**(2,486,906)**	(2,508,709)
Results of operating activities		**171,619**	66,328
Finance costs	9	**(34,673)**	(26,895)
Share of profits of associates after tax		**429**	259
Profit before tax		**137,375**	39,692
Tax expense	10	**(9,376)**	(5,788)
Profit for the year (all attributable to owners of the Company)		**127,999**	33,904
Earnings per share on profit attributable to owners of the Company			
Basic	12	**45.1c**	12.0c
Diluted	12	**44.3c**	11.6c

[1] See note 2.1 for further details.

The related notes 1 to 16 are an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2018

	2018	2017 (Restated)[1]
	$000	$000
Profit for the year	**127,999**	33,904
Other comprehensive income		
Items that will not be reclassified to the income statement:		
Remeasurements of the net defined benefit obligation	**20,249**	11,173
Income tax effect	**(4,135)**	(2,279)
	16,114	8,894
Items that may be reclassified subsequently to the income statement:		
Exchange (losses)/gains on translating foreign operations	**(17,906)**	126,987
Income tax effect	**-**	-
	(17,906)	126,987
Other comprehensive income net of tax	**(1,792)**	135,881
Total comprehensive income for the year (all attributable to owners of the Company)	**126,207**	169,785

[1] See note 2.1 for further details.

The related notes 1 to 16 are an integral part of these condensed consolidated financial statements.

Condensed consolidated balance sheet

At 31 December 2018

	Note	31 Dec 2018 $000	31 Dec 2017 (Restated)[1] $000	31 Dec 2016 (Restated)[1] $000
Assets				
Goodwill and intangible assets		**204,600**	186,038	153,418
Property, plant and equipment		**61,458**	65,628	60,047
Investments in associates		**9,922**	10,723	17,155
Deferred tax		**60,673**	53,462	51,326
Deferred acquisition costs		**455,857**	446,129	429,777
Financial assets carried at fair value	14	**5,029,681**	5,139,643	4,702,121
Reinsurance assets	11	**2,456,575**	1,833,255	999,005
Loans and receivables including insurance receivables		**1,265,110**	1,121,452	995,592
Current tax asset		**13,578**	5,716	2,985
Cash and cash equivalents		**1,288,851**	867,767	824,373
Total assets		**10,846,305**	9,729,813	8,235,799
Equity and liabilities				
Shareholders' equity				
Share capital		**33,986**	33,913	33,806
Share premium		**57,680**	45,849	34,031
Contributed surplus		**183,969**	183,969	183,969
Currency translation reserve		**(328,488)**	(310,582)	(437,569)
Retained earnings		**2,368,897**	2,414,158	2,439,509
Equity attributable to owners of the Company		**2,316,044**	2,367,307	2,253,746
Non-controlling interest		**1,074**	1,074	1,074
Total equity		**2,317,118**	2,368,381	2,254,820
Employee retirement benefit obligation		**35,776**	64,114	69,612
Deferred tax		**-**	-	21,116
Insurance liabilities	11	**6,701,475**	6,007,750	4,777,693
Financial liabilities	14	**700,549**	391,110	342,604
Current tax		**10,307**	9,456	26,952
Trade and other payables		**1,081,080**	889,002	743,002
Total liabilities		**8,529,187**	7,361,432	5,980,979
Total equity and liabilities		**10,846,305**	9,729,813	8,235,799

[1] See note 2.1 for further details.

The related notes 1 to 16 are an integral part of these condensed consolidated financial statements.

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Condensed consolidated statement of changes in equity

For the year ended 31 December 2018

	Share capital $000	Share premium $000	Contributed surplus $000	Currency translation reserve $000	Retained earnings $000	Non-controlling interest $000	Total equity $000
Balance at 1 January 2018 (Restated)[1]	**33,913**	**45,849**	**183,969**	**(310,582)**	**2,414,158**	**1,074**	**2,368,381**
Profit for the year (all attributable to owners of the Company)	-	-	-	-	127,999	-	**127,999**
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	(17,906)	16,114	-	**(1,792)**
Employee share options:							
Equity settled share-based payments	-	-	-	-	(3,638)	-	**(3,638)**
Proceeds from shares issued	41	4,013	-	-	-	-	**4,054**
Deferred and current tax on employee share options	-	-	-	-	4,286	-	**4,286**
Net movements of treasury shares held by Trust	-	-	-	-	(76,474)	-	**(76,474)**
Shares issued in relation to Scrip Dividend	32	7,818	-	-	-	-	**7,850**
Dividends paid to owners of the Company	-	-	-	-	(113,548)	-	**(113,548)**
Balance at 31 December 2018	**33,986**	**57,680**	**183,969**	**(328,488)**	**2,368,897**	**1,074**	**2,317,118**

[1] See note 2.1 for further details

The equity attributable to owners of the Company is $2,316,044,000 at 31 December 2018.

The related notes 1 to 16 are an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the year ended 31 December 2017 (Restated)[1]

	Share capital	Share premium	Contributed surplus	Currency translation reserve	Retained earnings	Non-controlling interest	Total equity
	$000	$000	$000	$000	$000	$000	$000
Balance at 1 January 2017	33,806	34,031	183,969	(437,569)	2,439,509	1,074	2,254,820
Profit for the year (all attributable to owners of the Company)	-	-	-	-	33,904	-	33,904
Other comprehensive income net of tax (all attributable to owners of the Company)	-	-	-	126,987	8,894	-	135,881
Employee share options:							
Equity settled share-based payments	-	-	-	-	32,465	-	32,465
Proceeds from shares issued	77	6,084	-	-	-	-	6,161
Deferred and current tax on employee share options	-	-	-	-	6,832	-	6,832
Net movements of treasury shares held by Trust	-	-	-	-	(3,738)	-	(3,738)
Shares issued in relation to Scrip Dividend	30	5,734	-	-	-	-	5,764
Dividends paid to owners of the Company	-	-	-	-	(103,708)	-	(103,708)
Balance at 31 December 2017	33,913	45,849	183,969	(310,582)	2,414,158	1,074	2,368,381

[1] See note 2.1 for further details.

The equity attributable to owners of the Company is $2,367,307,000 at 31 December 2017.

The related notes 1 to 16 are an integral part of these condensed consolidated financial statements.

HISCOX

Condensed consolidated statement of cash flows
For the year ended 31 December 2018

	Note	2018 $000	2017 (Restated)[1] $000
Profit before tax		**137,375**	39,692
Adjustments for:			
Net foreign exchange losses		**13,688**	80,890
Interest and equity dividend income		**(102,955)**	(81,590)
Interest expense	9	**34,673**	26,895
Net fair value losses/(gains) on financial assets and liabilities		**33,790**	(34,360)
Depreciation, amortisation and impairment		**33,184**	27,908
Charges in respect of share-based payments		**(3,638)**	32,465
Changes in operational assets and liabilities:			
Insurance and reinsurance contracts		**136,338**	326,046
Financial assets carried at fair value		**2,978**	(249,137)
Financial liabilities carried at fair value		**(18,301)**	18,022
Financial liabilities carried at amortised cost		**(53,241)**	30,430
Other assets and liabilities		**56,721**	(108,808)
Cash paid to the pension fund		**(3,733)**	-
Interest received		**90,830**	64,468
Equity dividends received		**827**	716
Interest paid		**(33,876)**	(25,664)
Current tax paid		**(24,193)**	(43,387)
Cash flows from subscriptions paid		**-**	(9,339)
Net cash flows from operating activities		**300,467**	95,247
Proceeds from the sale of subsidiaries		**-**	18,696
Proceeds from the sale of associates		**-**	32,225
Purchase of property, plant and equipment		**(7,832)**	(9,074)
Purchase of intangible assets		**(51,799)**	(38,576)
Net cash flows from investing activities		**(59,631)**	3,271
Proceeds from the issue of ordinary shares**		**4,054**	6,161
Shares repurchased		**(76,474)**	(3,738)
Distributions made to owners of the Company**	13	**(105,698)**	(97,944)
Proceeds from long-term debt issue, net of fees		**380,265**	-
Net cash flows from financing activities		**202,147**	(95,521)
Net increase in cash and cash equivalents		**442,983**	2,997
Cash and cash equivalents at 1 January		**867,767**	824,373
Net increase in cash and cash equivalents		**442,983**	2,997
Effect of exchange rate fluctuations on cash and cash equivalents		**(21,899)**	40,397
Cash and cash equivalents at 31 December	16	**1,288,851**	867,767

[1] See note 2.1 for further details.

** Following a review, prior year comparatives have been represented. Scrip dividend amounts of $5,764,000 are removed from these line items. This does not result in any changes to net cash flows from financing activities.

The related notes 1 to 16 are an integral part of these condensed consolidated financial statements.

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Notes to the condensed consolidated financial statements

1. General information

The Hiscox Group, which is headquartered in Hamilton, Bermuda, comprises Hiscox Ltd (the parent Company, referred to herein as the 'Company') and its subsidiaries (collectively, the 'Hiscox Group' or the 'Group'). For the period under review the Group provided insurance and reinsurance services to its clients worldwide. It has operations in Bermuda, the UK, Europe, Asia and the US with over 3,300 staff.
The Company is registered and domiciled in Bermuda and its ordinary shares are listed on the London Stock Exchange.

2. Basis of preparation

The preliminary results for the year ended 31 December 2018 are an abridged statement of the Group's consolidated financial statements which will be available on the Company's website on 8 March 2019. The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union Section 4.1 of the Disclosure and Transparency Rules and the Listing Rules, both issued by the UK Financial Conduct Authority, in addition to the Bermuda Companies Act 1981.

The Group's consolidated financial statements from which the condensed financial statements have been extracted have been audited. The auditor's report on the consolidated financial statements is unqualified and does not contain an emphasis-of-matter paragraph.

The basis of preparation and summary of accounting policies applicable to the Group's consolidated financial statements can be found in the note 2 to the 2018 Annual Report & Accounts. The comparative figures have been restated for the change in the presentation currency detailed in 2.1. In addition, the Group has adopted new and amended accounting standards as described in 2.2, however these have immaterial effect on reported profit or loss or equity, the statement of financial position or the statement of cash flows.

After making enquiries, the Directors have an expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

2.1 Changes in presentation currency and functional currency

With effect from 1 January 2018, the Group's presentation currency changed from Pounds Sterling to US Dollars, given that a significant majority of Group earnings are denominated in US Dollars. The Group believes that the presentation currency change will give investors and other stakeholders a clearer understanding of Hiscox's performance over time.

Following this change in accounting policy, the comparatives in the consolidated financial statements are represented in US Dollars using the procedures outlined below.

– Assets and liabilities are translated into US Dollars at closing rates of exchange. Trading results are translated into US Dollars at the rates of exchange prevailing at the dates of transaction or average rates where these are a suitable proxy. Differences resulting from the retranslation on the opening net assets and the results for the year have been presented in the currency translation reserve, a component within shareholders' equity.
– Share capital, share premiums and other reserves are translated at historic rates prevailing at the dates of transactions.
– The currency translation reserve was set to zero as of 1 January 2004, the transition date to IFRS. Cumulative currency translation adjustments are presented as if the Group had used US Dollars as the presentation currency of its consolidated financial statements since that date.

In addition, taking into consideration the following changes which were effective on 1 January 2018, the functional currency of Syndicate 33, Hiscox Dedicated Corporate Member Limited, Hiscox Syndicates Limited and Hiscox Capital Ltd changed from Pounds Sterling to US Dollars also effective from 1 January 2018.

– The denomination of a material internal quota share treaty has been changed from Pounds Sterling to US Dollars.
– The Syndicates managing agent's profit commission and fee has been changed from Pounds Sterling to US Dollars.
– The Group has aligned its underwriting capital to US Dollars.

This change is accounted for prospectively from 1 January 2018.

HISCOX

2.2 New accounting standards, interpretations and amendments to published standards that have been adopted by the Group

The Group has adopted the new accounting standards, interpretations and amendments to published standards which became effective for annual periods beginning on or after 1 January 2018. These include:

- IFRS 15 Revenue from Contracts with Customers replaces IAS 18 and establishes principles for revenue recognition that apply to all contracts with customers except for insurance contracts, financial instruments and lease contracts. It requires an entity to recognise revenue when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. In particular, it specifies that variable consideration is only recognised to the extent that it is highly probable that a significant reversal will not occur. The adoption of this standard has immaterial impact on the Group's financial statements, because the point at which control of a performance obligation is transferred to customers matches the point in which risk and rewards were transferred under IAS 18.

3. Financial risk

Credit risk

The Group mitigates counterparty credit risk by concentrating debt and fixed income investments in high quality instruments, including a particular emphasis on government bonds issued mainly by North American countries and the European Union. The Group has no direct exposure to sovereign debt in Spain, Italy, Ireland, Greece or Portugal.

An analysis of the Group's major exposures to counterparty credit risk excluding loans and receivables and equities and units in unit trusts, based on S&P or equivalent rating, is presented below:

As at 31 December 2018	AAA	AA	A	Other / non-rated	**Total**
	$000	$000	$000	$000	**$000**
Debt and fixed income securities	762,117	1,951,770	1,044,053	816,689	**4,574,629**
Deposits with credit institutions	-	-	-	364	**364**
Reinsurance assets	846,409	351,447	1,236,746	21,973	**2,456,575**
Cash and cash equivalents	174,700	115,160	820,708	178,283	**1,288,851**
Total	1,783,226	2,418,377	3,101,507	1,017,309	**8,320,419**

As at 31 December 2017 (Restated)[1]	AAA	AA	A	Other / non-rated	Total
	$000	$000	$000	$000	$000
Debt and fixed income securities	810,765	2,207,520	932,926	679,617	4,630,828
Deposits with credit institutions	-	2,554	3,503	1,125	7,182
Reinsurance assets	492,846	289,757	1,045,912	4,740	1,833,255
Cash and cash equivalents	158,685	45,495	637,940	25,647	867,767
Total	1,462,296	2,545,326	2,620,281	711,129	7,339,032

[1] See note 2.1 for further details.

Within the fixed income portfolios, which include debt securities, deposits with credit institutions and cash equivalent assets, there are exposures to a range of government borrowers, on either a direct or guaranteed basis and banking institutions. The Group, together with its investment managers, closely manages its geographical exposures across government issued and supported debt.

The largest aggregated counterparty exposure related to debt and fixed income securities holdings at 31 December 2018 of $1,214 million is to the US Treasury (2017: $1,254 million).

The Group is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the

3. Financial risk (continued)

restricted range of reinsurers that have acceptable credit ratings. The largest counterparty exposure included in reinsurance assets at 31 December 2018 is to Kiskadee. The fully collateralised recoverable from Kiskadee represents 17% (2017: 12%) of this category of assets.

Other/non-rated assets include $946 million rated as BBB (2017: $624 million). For the current period and prior period, the Group did not experience any material defaults on debt securities. The Group's AAA rated reinsurance assets include fully collateralised positions at 31 December 2018 and 2017.

An analysis of the Group's debt and fixed income securities at 31 December by class is detailed below:

	2018	2017
	%	%
Government issued bonds and instruments	**33**	34
Agency and government supported debt	**10**	14
Asset backed securities	**2**	3
Mortgage backed instruments – agency	**3**	4
Mortgage backed instruments – non-agency	**1**	1
Mortgage backed instruments – commercial	**-**	1
Corporate bonds	**49**	40
Lloyd's deposits and bond funds	**2**	3

Liquidity risk
A significant proportion of the Group's investments are in highly liquid assets which could be converted to cash in a prompt fashion and at minimal expense. The deposits with credit institutions largely comprise short-dated certificates for which an active market exists and which the Group can easily access. The Group's exposure to equities is concentrated on shares and funds that are traded on internationally recognised stock exchanges.

The main focus of the investment portfolio is on high-quality short duration debt and fixed income securities and cash. There are no significant holdings of investments with specific repricing dates. Notwithstanding the regular interest receipts and also the Group's ability to liquidate these securities and the majority of its other financial instrument assets for cash in a prompt and reasonable manner, the contractual maturity profile of the fair value of these securities at 31 December is as follows:

	Less than one year	Between one and two years	Between two and five years	Over five years	**2018 total**	2017 total (Restated)[1]
	$000	$000	$000	$000	**$000**	$000
Debt and fixed income securities	1,298,230	1,538,745	1,419,801	317,853	**4,574,629**	4,630,828
Deposits with credit institutions	364	-	-	-	**364**	7,182
Cash and cash equivalents	1,288,851	-	-	-	**1,288,851**	867,767
Total	2,587,445	1,538,745	1,419,801	317,853	**5,863,844**	5,505,777

[1] See note 2.1 for further details.

The Group's equities and shares in unit trusts and other non-dated instruments have no contractual maturity terms but could also be liquidated in an orderly manner for cash in a prompt and reasonable time frame within one year of the balance sheet date.

4. Operating segments

The Group's operating segment reporting follows the organisational structure and management's internal reporting systems, which form the basis for assessing the financial reporting performance of and allocation of resource to each business segment.

In 2018, the Group has reviewed the segmental presentation of financial information it requires to assess performance and allocate resources. It now considers that run-off portfolios where the Group has ceded all insurance risks to a third party should no longer be presented as part of the underwriting operations as these will not form part of the Group's assessment of the performance of the segment going forward and also will no longer generate returns for the Group. These run-off portfolios together with the reinsurance ceded are presented as part of the Corporate Centre segment. In line with the change in management's internal reporting, the segmental reporting has been updated accordingly. This change would also provide more meaningful views and trends of the underwriting performance of the business.

4. Operating segments (continued)

The Group's four primary business segments are identified as follows:

Hiscox Retail brings together the results of Hiscox UK & Europe and Hiscox International being the US, Special Risks and Asia retail business divisions.

Hiscox UK & Europe underwrites European personal and commercial lines of business through Hiscox Insurance Company Limited, together with the fine art and non-US household insurance business written through Syndicate 33. In addition, Hiscox UK includes elements of specialty and international employees and officers' insurance written by Syndicate 3624, but excludes the European kidnap and ransom business written by Hiscox Insurance Company Limited.

Hiscox International comprises the specialty and fine art lines written through Hiscox Insurance Company (Guernsey) Limited, and the motor business written via DirectAsia, together with US commercial, property and specialty business written by Syndicate 3624 and Hiscox Insurance Company Inc. via the Hiscox USA business division. It also includes the European kidnap and ransom business written by Hiscox Insurance Company Limited and Syndicate 33.

Hiscox London Market comprises the internationally traded insurance business written by the Group's London-based underwriters via Syndicate 33, including lines in property, marine and energy, casualty and other specialty insurance lines, excluding the kidnap and ransom business. In addition, the segment includes elements of business written by Syndicate 3624 being auto physical damage business.

Hiscox Re & ILS is the reinsurance division of the Hiscox Group, combining the underwriting platforms in Bermuda and London. The segment comprises the performance of Hiscox Insurance Company (Bermuda) Limited, excluding the internal quota share arrangements, with the reinsurance contracts written by Syndicate 33. In addition, the health care and casualty reinsurance contracts written in the Bermuda hub on Syndicate capacity are also included. The segment also includes performance and fee income from the ILS funds, along with the gains and losses made as a result of the Group's investment in the funds.

Corporate Centre comprises the investment return, finance costs and administrative costs associated with Group management activities. Corporate Centre also includes the majority of foreign currency items on economic hedges and intragroup borrowings. These relate to certain foreign currency items on economic hedges and intragroup borrowings. In addition, from 1 January 2018, the segment includes results from run-off portfolios where the Group has ceded all insurance risks to a third party reinsurer. Corporate Centre forms a reportable segment due to its investment activities which earn significant external returns.

All amounts reported below represent transactions with external parties only. In the normal course of trade, the Group's entities enter into various reinsurance arrangements with one another. The related results of these transactions are eliminated on consolidation and are not included within the results of the segments. This is consistent with the information used by the chief operating decision-maker when evaluating the results of the Group. Performance is measured based on each reportable segment's profit before tax.

4. Operating segments (continued)

Year to 31 December 2018

	Hiscox Retail	Hiscox London Market	Hiscox Re & ILS	Corporate Centre[1]	Total
	$000	$000	$000	$000	$000
Gross premiums written	2,087,117	877,697	812,010	1,517	**3,778,341**
Net premiums written	1,874,483	522,948	241,464	(57,409)	**2,581,486**
Net premiums earned	1,821,855	551,764	257,429	(57,409)	**2,573,639**
Investment result	9,515	13,307	12,902	2,377	**38,101**
Other income	23,787	9,745	13,135	118	**46,785**
Total income	1,855,157	574,816	283,466	(54,914)	**2,658,525**
Claims and claim adjustment expenses, net of reinsurance	(812,124)	(253,273)	(217,952)	57,520	**(1,225,829)**
Expenses for the acquisition of insurance contracts	(459,326)	(164,556)	(17,401)	(388)	**(641,671)**
Operational expenses	(448,516)	(75,502)	(58,390)	(23,310)	**(605,718)**
Net foreign exchange gains/(losses)	1,173	(2,619)	(11,608)	(634)	**(13,688)**
Total expenses	(1,718,793)	(495,950)	(305,351)	33,188	**(2,486,906)**
Results of operating activities	136,364	78,866	(21,885)	(21,726)	**171,619**
Finance costs	(201)	(629)	(1,315)	(32,528)	**(34,673)**
Share of (loss)/profit of associates after tax	(206)	-	-	635	**429**
Profit/(loss) before tax	135,957	78,237	(23,200)	(53,619)	**137,375**
Profit/(loss) before tax and foreign exchange gains/(losses)	134,784	80,856	(11,592)	(52,985)	**151,063**
100% ratio analysis*					
Claims ratio (%)	43.8	46.0	83.8	-	**48.5**
Expense ratio (%)	49.8	43.0	28.7	-	**45.9**
Combined ratio excluding foreign exchange impact (%)	93.6	89.0	112.5	-	**94.4**
Foreign exchange impact (%)	-	0.3	4.4	-	**0.5**
Combined ratio (%)^	93.6	89.3	116.9	-	**94.9**

[1] Includes a run-off casualty portfolio following the completion of a loss portfolio transfer reinsurance treaty effective from 2018 ceding any future payments on losses arising from claims developments related to policies written from 2010 to 2016, with net premiums earned of $(57.4) million and claims and claim adjustment expenses net of reinsurance of $57.5 million.

^ The combined ratio is made up of the aggregation of the claims ratio, the expense ratio and the impact of foreign exchange. The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts and operational expenses as a proportion of net premiums earned. The foreign exchange impact ratio is calculated as the foreign exchange gains or losses as a proportion of net premiums earned. All ratios are calculated using the 100% results and excludes a run-off portfolio where the Group has ceded all insurance risks to a third party reinsurer, included within Corporate Centre.

4. Operating segments (continued)

Year to 31 December 2017 (Restated)[1]

	Hiscox Retail $000	Hiscox London Market $000	Hiscox Re & ILS $000	Corporate Centre $000	Total $000
Gross premiums written	1,835,428	749,793	700,800	-	3,286,021
Net premiums written	1,674,238	484,945	243,816	-	2,402,999
Net premiums earned	1,585,289	561,572	269,347	-	2,416,208
Investment result	29,361	14,509	27,942	32,938	104,750
Other income	35,351	13,908	4,350	470	54,079
Total income	1,650,001	589,989	301,639	33,408	2,575,037
Claims and claim adjustment expenses, net of reinsurance	(721,851)	(400,229)	(188,836)	-	(1,310,916)
Expenses for the acquisition of insurance contracts	(401,070)	(159,823)	(27,037)	-	(587,930)
Operational expenses	(384,685)	(61,469)	(53,294)	(29,525)	(528,973)
Net foreign exchange losses	(530)	(15,174)	(5,253)	(59,933)	(80,890)
Total expenses	(1,508,136)	(636,695)	(274,420)	(89,458)	(2,508,709)
Results of operating activities	141,865	(46,706)	27,219	(56,050)	66,328
Finance costs	(10)	-	(1,716)	(25,169)	(26,895)
Share of (loss)/profit of associates after tax	(247)	-	-	506	259
Profit/(loss) before tax	141,608	(46,706)	25,503	(80,713)	39,692
Profit/(loss) before tax and foreign exchange losses	142,138	(31,532)	30,756	(20,780)	120,582
100% ratio analysis*					
Claims ratio (%)	45.2	70.1	71.0	-	54.9
Expense ratio (%)	49.3	38.6	27.9	-	43.9
Combined ratio excluding foreign exchange impact (%)	94.5	108.7	98.9	-	98.8
Foreign exchange impact (%)	0.1	2.9	2.4	-	1.1
Combined ratio (%)^	94.6	111.6	101.3	-	99.9

[1] See note 2.1 for further details

***** The Group's percentage participation in Syndicate 33 can fluctuate from year to year and consequently, presentation of the ratios at the 100% level removes any distortions arising therefrom.

^ The combined ratio is made up of the aggregation of the claims ratio, the expense ratio and the impact of foreign exchange. The claims ratio is calculated as claims and claim adjustment expenses, net of reinsurance, as a proportion of net premiums earned. The expense ratio is calculated as the total of expenses for the acquisition of insurance contracts and operational expenses as a proportion of net premiums earned. The foreign exchange impact ratio is calculated as the foreign exchange gains or losses as a proportion of net premiums earned. All ratios are calculated using the 100% results and excludes a run-off portfolio, where the Group has ceded all insurance risks to a third party reinsurer, included within Corporate Centre.

4. Operating segments (continued)

The tables presented below contain the net earned premium, claims, expenses and foreign exchange items at 100% ownership, to enable calculation of the ratios included in the operating segments.

Year ended 31 December 2018

	Hiscox Retail $000	Hiscox London Market $000	Hiscox Re & ILS $000	Corporate Centre $000	Total $000
Net premium earned	1,862,975	719,441	298,137	-	**2,880,553**
Claims and claim adjustment expenses, net of reinsurance	(816,109)	(330,924)	(249,797)	-	**(1,396,830)**
Expenses for the acquisition of insurance contracts	(475,623)	(213,872)	(19,535)	-	**(709,030)**
Operational expenses	(451,864)	(95,257)	(65,998)	-	**(613,119)**
Net foreign exchange gains/(losses)	295	(2,687)	(13,184)	-	**(15,576)**

Year ended 31 December 2017 (Restated)[1]

	Hiscox Retail $000	Hiscox London Market $000	Hiscox Re & ILS $000	Corporate Centre $000	Total $000
Net premium earned	1,622,173	703,657	314,205	-	2,640,035
Claims and claim adjustment expenses, net of reinsurance	(734,160)	(493,201)	(222,953)	-	(1,450,314)
Expenses for the acquisition of insurance contracts	(413,145)	(197,629)	(28,488)	-	(639,262)
Operational expenses	(386,080)	(73,882)	(59,264)	-	(519,226)
Net foreign exchange losses	(1,120)	(20,531)	(7,535)	-	(29,186)

[1] See note 2.1 for further details

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5. Net asset value per share

	31 Dec 2018		31 Dec 2017 (Restated)[1]	
	Net asset value (total equity)	**Net asset value per share cent**	Net asset value (total equity)	Net asset value per share cent
	$000		$000	
Net asset value	**2,317,118**	**819.1**	2,368,381	835.1
Net tangible asset value	**2,112,518**	**746.8**	2,182,343	769.5

[1] See note 2.1 for further details

The net asset value per share is based on 282,886,319 shares (31 December 2017: 283,600,709), being the shares in issue at 31 December, less those held in treasury and those held by the Group Employee Benefit Trust. Net tangible assets comprise total equity excluding intangible assets. The net asset value per share expressed in pence is 643.1p (31 December 2017:618.6p).

6. Return on equity

	Year to 31 Dec 2018	Year to 31 Dec 2017 (Restated)[1]
	$000	$000
Profit for the year	**127,999**	33,904
Opening total equity	**2,368,381**	2,254,820
Adjusted for the time weighted impact of capital distributions and issuance of shares	**(83,664)**	(43,525)
Adjusted opening total equity	**2,284,717**	2,211,295
Return on equity (%)	**5.6%**	1.5%

[1] See note 2.1 for further details

The return on equity is calculated by using profit for the year divided by the adjusted opening total equity. The adjusted opening total equity represents the equity on 1 January of the relevant year as adjusted for time weighted aspects of capital distributions and issuing of shares or treasury share purchases during the year. The time weighted positions are calculated on a daily basis with reference to the proportion of time from the transaction to the end of the year.

7. Investment result

i. Analysis of investment result

The total investment result for the Group before taxation comprises:

	Year to 31 Dec 2018	Year to 31 Dec 2017 (Restated)[1]
	$000	$000
Investment income including interest receivable	**102,955**	81,590
Net realised losses on financial investments at fair value through profit or loss	**(25,397)**	(5,130)
Net fair value (losses)/gains on financial investments at fair value through profit or loss	**(35,070)**	36,055
Investment result – financial assets	**42,488**	112,515
Fair value gains/(losses) on derivative financial instruments	**1,280**	(1,695)
Investment expenses	**(5,667)**	(6,070)
Total result	**38,101**	104,750

[1] See note 2.1 for further details

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7. Investment result (continued)

ii. Investment return

	Year to 31 Dec 2018 $000		Year to 31 Dec 2017 (Restated)[1] $000	
	Return $000	**Yield %**	Return $000	Yield %
Debt and fixed income securities	**57,507**	**1.3**	54,241	1.2
Equities and units in unit trusts	**(27,513)**	**(6.2)**	53,434	12.9
Deposits with credit institutions/cash and cash equivalents	**12,494**	**0.8**	4,840	0.5
Investment result – financial assets	**42,488**	**0.7**	112,515	2.0

[1] See note 2.1 for further details

8. Other income and operational expenses

	Year to 31 Dec 2018 $000	Year to 31 Dec 2017 (Restated)[1] $000
Agency-related income	**27,061**	16,176
Profit commission	**6,959**	11,746
Other underwriting loss	**(3,362)**	(7,360)
Other income[†]	**16,127**	33,517
Other income	**46,785**	54,079
Wages and salaries	**212,377**	168,234
Social security costs	**32,689**	30,022
Pension cost – defined contribution	**14,640**	12,765
Pension cost – defined benefit	**2,188**	2,263
Share-based payments	**(3,638)**	32,465
Marketing expenses	**69,711**	69,097
Depreciation, amortisation and impairment	**33,184**	27,908
Other expenses	**244,567**	186,219
Operational expenses	**605,718**	528,973

[1] See note 2.1 for further details

[†] Comparative includes results of the sale of a subsidiary and an associate in 2017.

Wages and salaries have been shown net of transfers to acquisition and claims expenses.

Other expenses include, but are not limited to, legal and professional costs, computer costs, contractor-based costs and property costs. None of the items are individually material.

9. Finance costs

	Year to 31 Dec 2018 $000	Year to 31 Dec 2017 (Restated)[1] $000
Interest charge associated with long-term debt	**28,360**	21,713
Interest and expenses associated with bank borrowing facilities	**2,485**	3,435
Interest and charges associated with Letters of Credit	**3,199**	909
Interest charges on experience account	**629**	838
Total finance costs	**34,673**	26,895

[1] See note 2.1 for further details

10. Tax expense

The Company and its subsidiaries are subject to enacted tax laws in the jurisdictions in which they are incorporated and domiciled.

The amount charged in the condensed consolidated income statement comprise the following:

	Year to 31 Dec 2018 $000	Year to 31 Dec 2017 (Restated)[1] $000
Current tax expense	**21,188**	24,377
Deferred tax credit	**(11,812)**	(18,589)
Total tax charged to the income statement	**9,376**	5,788

[1] See note 2.1 for further details

11. Insurance liabilities and reinsurance assets

	Year to 31 Dec 2018 $000	Year to 31 Dec 2017 (Restated)[1] $000
Gross		
Claims and claim adjustment expenses outstanding	**4,992,203**	4,350,566
Unearned premiums	**1,709,272**	1,657,184
Total insurance liabilities, gross	**6,701,475**	6,007,750
Recoverable from reinsurers		
Claims and claim adjustment expenses outstanding	**2,047,099**	1,492,298
Unearned premiums	**409,476**	340,957
Total reinsurers' share of insurance liabilities	**2,456,575**	1,833,255
Net		
Claims and claim adjustment expenses outstanding	**2,945,104**	2,858,268
Unearned premiums	**1,299,796**	1,316,227
Total insurance liabilities, net	**4,244,900**	4,174,495

[1] See note 2.1 for further details

Net claims and claim adjustment expenses include releases of $326.5 million (31 December 2017: $324.2 million) reserves established in prior reporting periods.

11. Insurance liabilities and reinsurance assets (continued)

The development of net claims reserves by accident years are detailed below.

Insurance claims and claims expenses reserves – net at 100%

Accident year	2009 $000	2010 $000	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	**Total $000**
Estimate of ultimate claims costs as adjusted for foreign exchange*:											
at end of accident year	1,043,379	1,188,318	1,478,605	1,165,479	1,112,603	1,160,605	1,235,375	1,449,168	1,834,262	1,788,472	**13,456,266**
one year later	825,472	1,062,739	1,352,903	1,029,861	987,409	1,019,248	1,142,638	1,314,857	1,612,635		**10,347,762**
two years later	801,024	990,215	1,307,656	953,721	886,480	926,170	1,049,091	1,241,805			**8,156,162**
three years later	806,113	959,124	1,309,295	918,129	822,113	871,962	1,042,224				**6,728,960**
four years later	790,438	932,291	1,300,256	908,905	817,967	842,898					**5,592,755**
five years later	788,586	926,775	1,248,025	929,198	792,666						**4,685,250**
six years later	771,822	895,406	1,211,680	919,205							**3,798,113**
seven years later	766,346	880,933	1,178,552								**2,825,831**
eight years later	745,754	874,749									**1,620,503**
nine years later	744,878										**744,878**
Current estimate of cumulative claims	744,878	874,749	1,178,552	919,205	792,666	842,898	1,042,224	1,241,805	1,612,635	1,788,472	**11,038,084**
Cumulative payments to date	(705,061)	(826,955)	(1,131,680)	(782,619)	(724,120)	(684,741)	(743,175)	(853,452)	(948,085)	(423,922)	**(7,823,810)**
Liability recognised at 100% level	39,817	47,794	46,872	136,586	68,546	158,157	299,049	388,353	664,550	1,364,550	**3,214,274**
Liability recognised in respect of prior accident years at 100% level											**91,079**
Total net liability to external parties at 100%											**3,305,353**

* The foreign exchange adjustment arises from the retranslation of the estimates at each date using the exchange rate ruling at 31 December 2018.

11. Insurance liabilities and reinsurance assets (continued)

Reconciliation of 100% disclosures above to Group's share – net

Accident year	2009 $000	2010 $000	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	2016 $000	2017 $000	2018 $000	**Total $000**
Current estimate of cumulative claims	744,878	874,749	1,178,552	919,205	792,666	842,898	1,042,224	1,241,805	1,612,635	1,788,472	**11,038,084**
Less: attributable to external Names	(124,850)	(131,534)	(166,805)	(104,417)	(85,490)	(89,395)	(108,754)	(129,538)	(176,805)	(182,260)	**(1,299,848)**
Group's share of current ultimate claims estimate	620,028	743,215	1,011,747	814,788	707,176	753,503	933,470	1,112,267	1,435,830	1,606,212	**9,738,236**
Cumulative payments to date	(705,061)	(826,955)	(1,131,680)	(782,619)	(724,120)	(684,741)	(743,175)	(853,452)	(948,085)	(423,922)	**(7,823,810)**
Less: attributable to external Names	120,237	121,142	157,600	87,455	75,164	73,447	75,132	90,132	115,294	44,945	**960,548**
Group's share of cumulative payments	(584,824)	(705,813)	(974,080)	(695,164)	(648,956)	(611,294)	(668,043)	(763,320)	(832,791)	(378,977)	**(6,863,262)**
Liability for 2009 to 2018 accident years recognised on Group's balance sheet	35,204	37,402	37,667	119,624	58,220	142,209	265,427	348,947	603,039	1,227,235	**2,874,974**
Liability for accident years before 2009 recognised on Group's balance sheet											**70,130**
Total Group liability to external parties included in the balance sheet, net†											**2,945,104**

† This represents the claims element of the Group's insurance liabilities and reinsurance assets.

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12. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held in treasury as own shares.

	Year to 31 Dec 2018	Year to 31 Dec 2017 (Restated)[1]
Profit for the year attributable to owners of the Company ($000)	**127,999**	33,904
Weighted average number of ordinary shares in issue (thousands)	**283,564**	281,964
Basic earnings per share (cent per share)	**45.1c**	12.0c
Basic earnings per share (pence per share)	**33.9p**	9.3p

[1] See note 2.1 for further details

Diluted

Diluted earnings per share is calculated by adjusting the assumed conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, share options and awards. For the share options, a calculation is made to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year to 31 Dec 2018	Year to 31 Dec 2017 (Restated)[1]
Profit for the year attributable to owners of the Company ($000)	**127,999**	33,904
Weighted average number of ordinary shares in issue (thousands)	**283,564**	281,964
Adjustment for share options (thousands)	**5,650**	9,065
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**289,214**	291,029
Diluted earnings per share (cent per share)	**44.3c**	11.6c
Diluted earnings per share (pence per share)	**33.2p**	9.0p

[1] See note 2.1 for further details

13. Dividends paid to owners of the Company

	Year to 31 Dec 2018 $000	Year to 31 Dec 2017 (Restated)[1] $000
Final dividend for the year ended:		
31 December 2017 of 19.5p or 27.2c (net) per share	**76,009**	-
31 December 2016 of 19.0p or 23.6c (net) per share	**-**	67,664
Interim dividend for the year ended:		
31 December 2018 of 13.25c (net) per share	**37,539**	-
31 December 2017 of 9.5p or 12.6c (net) per share	**-**	36,044
	113,548	103,708

[1] See note 2.1 for further details

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13. Dividends paid to owners of the Company (continued)

The final dividend for the year ended 31 December 2017 was either paid in cash or issued as a scrip dividend equivalent of 27.2c per share. The final dividend for the year ended 31 December 2017 was paid in cash of $71,524,000 and 263,368 shares for the scrip dividend.

The interim dividends for 2018 and 2017 were either paid in cash or issued as a scrip dividend at the option of the shareholder. The interim dividend for the year ended 31 December 2018 was paid in cash of $35,694,000 (2017:$33,255,000) and 107,896 shares for the scrip dividend (2017: 108,769).

From the 2018 interim dividend, dividends have been and will continue to be declared in US Dollars, aligning shareholder returns with the primary currency in which the Group generates cash flow.

The Board has declared a final dividend of 28.6c per share to be paid on 12 June 2019 to shareholders registered on 10 May 2019, taking the total ordinary dividend per share for the year to 41.85c (2017:39.8c). The dividends will be paid in Pounds Sterling unless shareholders elect to be paid in US Dollars. The foreign exchange rates at which future dividends declared in US Dollars will be calculated is based on the average exchange rate in the five business days prior to the scrip dividend price being determined. On this occasion, the period will be between 22 May 2019 to 26 May 2019 inclusive.

A scrip dividend alternative will be offered to the owners of the Company.

When determining the level of dividend each year, the Board considers the ability of the Group to generate cash; the availability of that cash in the Group, while considering constraints such as regulatory capital requirements and the level required to invest in the business. This is a progressive policy and is expected to be maintained for the foreseeable future.

14. Financial assets and liabilities

i. Analysis of financial assets carried at fair value

	Year to 31 Dec 2018	Year to 31 Dec 2017 (Restated)[1]
	$000	$000
Debt and fixed income securities	**4,574,629**	4,630,828
Equities and shares in unit trusts	**398,055**	451,305
Deposits with credit institutions	**364**	7,182
Total investments	**4,973,048**	5,089,315
Insurance linked funds	**55,182**	49,918
Derivative financial instruments	**1,451**	410
Total financial assets carried at fair value	**5,029,681**	5,139,643

ii. Analysis of financial liabilities carried at fair value

	Year to 31 Dec 2018	Year to 31 Dec 2017 (Restated)[1]
	$000	$000
Amounts owed to credit institutions	**-**	18,446
Derivative financial instruments	**1,079**	163
Total financial liabilities carried at fair value	**1,079**	18,609

[1] See note 2.1 for further details

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14. Financial assets and liabilities (continued)

iii. Analysis of financial liabilities carried at amortised cost

	Year to 31 Dec 2018 **$000**	Year to 31 Dec 2017 (Restated)[1] $000
Long-term debt	**697,120**	370,071
Accrued interest on long-term debt	**2,350**	2,430
Total financial liabilities carried at amortised cost	**699,470**	372,501

[1] See note 2.1 for further details

On 24 November 2015, the Group issued £275.0 million 6.125% fixed-to-floating rate callable subordinated notes due 2045, with a first call date of 2025.

The notes bear interest, from and including, 24 November 2015 at a fixed rate of 6.125% per annum annually in arrears starting 24 November 2016 up until the first call date in November 2025 and thereafter at a floating rate of interest equal to three-month LIBOR plus 5.076% payable quarterly in arrears on each floating interest payment date.

On 25 November 2015 the notes were admitted for trading on the London Stock Exchange's regulated market. The notes were rated BBB- by S&P as well as by Fitch.

On 14 March 2018, the Group issued £275.0 million 2% notes due December 2022.

The notes bear interest, from and including, 14 March 2018 at a fixed rate of 2% per annum annually in arrears starting 14 December 2018 until maturity on 14 December 2022. On 14 March 2018, the notes were admitted for trading on the Luxembourg Stock Exchange's Euro MTF. The notes were rated BBB+ by S&P as well as by Fitch.

iv. Investment and cash allocation

	31 Dec 2018		31 Dec 2017 (Restated)[1]	
	$000	**%**	$000	%
Debt and fixed income securities	**4,574,629**	**73.1**	4,630,828	77.7
Equities and shares in unit trusts	**398,055**	**6.4**	451,305	7.6
Deposits with credit institutions/cash and cash equivalents	**1,289,215**	**20.5**	874,949	14.7
Total	**6,261,899**		5,957,082	

[1] See note 2.1 for further details

v. Investment and cash allocation by currency

	31 Dec 2018 %	31 Dec 2017 %
US Dollars	**64.4**	65.8
Sterling	**22.7**	21.6
Euro and other currencies	**12.9**	12.6

15. Fair value measurements

In accordance with IFRS 13 Fair Value Measurement, the fair value of financial instruments based on a three-level fair value hierarchy that reflects the significance of the inputs used in measuring the fair value, is set out below:

As at 31 December 2018	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial Assets				
Debt and fixed income securities	1,509,012	3,065,617	-	**4,574,629**
Equities and shares in unit trusts	-	379,139	18,916	**398,055**
Deposits with credit institutions	364	-	-	**364**
Insurance linked fund	-	-	55,182	**55,182**
Derivative financial instruments	-	1,451	-	**1,451**
Total	1,509,376	3,446,207	74,098	**5,029,681**
Financial Liabilities				
Derivative financial instruments	-	1,079	-	**1,079**
Total	-	1,079	-	**1,079**

As at 31 December 2017 (Restated)[1]	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
Financial Assets				
Debt and fixed income securities	1,610,461	3,020,367	-	4,630,828
Equities and shares in unit trusts	-	435,934	15,371	451,305
Deposits with credit institutions	7,182	-	-	7,182
Insurance linked fund	-	-	49,918	49,918
Derivative financial instruments	-	410	-	410
Total	1,617,643	3,456,711	65,289	5,139,643
Financial Liabilities				
Derivative financial instruments	-	163	-	163
Total	-	163	-	163

[1] See note 2.1 for further details

The levels of the fair value hierarchy are defined by the standard as follows:

- level 1 - fair values measured using quoted prices (unadjusted) in active markets for identical instruments;
- level 2 - fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on market observable data;
- level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data.

The fair values of the Group’s financial assets are based on prices provided by investment managers who obtain market data from numerous independent pricing services. The pricing services used by the investment managers obtain actual transaction prices for securities that have quoted prices in active markets. For those securities which are not actively traded, the pricing services use common market valuation pricing models. Observable inputs used in common market valuation pricing models include, but are not limited to, broker quotes, credit ratings, interest rates and yield curves, prepayment speeds, default rates and other such inputs which are available from market sources.

Investments in mutual funds, which are included in equities and shares in unit trusts, comprise a portfolio of stock investments in trading entities which are invested in various quoted investments. The fair value of shares in unit trusts are based on the net asset value of the fund reported by independent pricing sources or the fund manager.

15. Fair value measurements (continued)

Included within Level 1 of the fair value hierarchy are certain government bonds, treasury bills, long-term debt and exchange-traded equities which are measured based on quoted prices in active markets. The fair value of the long-term debt that is carried at amortised cost, is estimated at $706.3 million (2017 : $428.5 million) and is considered as Level 1 in the fair value hierarchy.

Level 2 of the hierarchy contains certain government bonds, US government agencies, corporate securities, asset-backed securities and mortgage backed securities. The fair value of these assets are based on the prices obtained from both investment managers and investment custodians as discussed above. The Group records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the investment managers with the investment custodians and the valuation used by external parties to derive fair value. Quoted prices for US government agencies and corporate securities are based on a limited number of transactions for those securities and as such the Group considers these instruments to have similar characteristics as those instruments classified as Level 2. Also included within Level 2 are units held in traditional long funds and long and short special funds and over-the-counter derivatives.

Level 3 contains investments in a limited partnership, unquoted equity securities and insurance-linked funds which have limited observable inputs on which to measure fair value. Unquoted equities, including equity instruments in limited partnerships, are carried at fair value. Fair value is determined to be net asset value for the limited partnerships and for the equity holdings it is determined to be the latest available traded price. The effect of changing one or more of the inputs used in the measurement of the fair value of these instruments to another reasonably possible assumption would not be significant. At 31 December 2018, the insurance linked fund of $55,182,000 (31 December 2017 : $49,918,000) represents the Group's investment in the Kiskadee Funds.

The fair value of the Kiskadee Funds is estimated to be the net asset value as at the balance sheet date. The net asset value is based on the fair value of the assets and liabilities in the Funds. The majority of the assets of the Funds are cash and cash equivalents. Significant inputs and assumptions in calculating the fair value of the assets and liabilities associated with reinsurance contracts written by the Kiskadee Funds include the amount and timing of claims payable in respect of claims incurred and periods of unexpired risk. The Group has considered changes in the net asset valuation of the Kiskadee Funds if reasonably different inputs and assumptions were used and has found no significant changes in the valuation.

In certain cases, the inputs used to measure the fair value of a financial instrument may fall into more than one level within the fair value hierarchy. In this instance, the fair value of the instrument in its entirety is classified based on the lowest level of input that is significant to the fair value measurement.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred.

During the year, there were no transfers made between Level 1, Level 2 or Level 3 of the fair value hierarchy.

15. Fair value measurements (continued)

The following table sets forth a reconciliation of opening and closing balances for financial instruments classified under Level 3 of the fair value hierarchy:

			31 Dec 2018 Financial assets
	Equities and shares in unit trusts $000	**Insurance linked fund $000**	**Total $000**
Balance at 1 January	**15,371**	**49,918**	**65,289**
Fair value gains or losses through profit or loss	**(381)**	**(3,140)**	**(3,521)**
Foreign exchange losses	**(708)**	**-**	**(708)**
Purchases	**5,000**	**9,339**	**14,339**
Settlements	**(366)**	**(935)**	**(1,301)**
Closing balance	**18,916**	**55,182**	**74,098**

			31 Dec 2017 (Restated)[1] Financial assets
	Equities and shares in unit trusts $000	Insurance linked fund $000	Total $000
Balance at 1 January	15,072	58,058	73,130
Fair value gains or losses through profit or loss	(440)	(7,360)	(7,800)
Net foreign exchange gains/(losses)	1,010	(203)	807
Purchases	753	5,156	5,909
Settlements	(1,024)	(5,733)	(6,757)
Closing balance	15,371	49,918	65,289

[1] See note 2.1 for further details

16. Condensed consolidated cash flow statement

The purchase, maturity and disposal of financial assets and liabilities, including derivatives, is part of the Group's insurance activities and is therefore classified as an operating cash flow.

Included within cash and cash equivalents held by the Group are balances totalling $211 million (2017 : $178 million) not available for use by the Group outside of the Lloyd's syndicate within which they are held. Additionally, $24 million (2017 : $15 million) is pledged cash against Funds at Lloyd's, and $10 million (2017 : $7 million) is held within trust funds against reinsurance arrangements.